

Message Text

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PAGE 01 CAIRO 09971 041729Z

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ACTION NEA-10

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FM AMEMBASSY CAIRO

TO SECSTATE WASHDC PRIORITY 7010

C O N F I D E N T I A L CAIRO 9971

E.O. 11652: GDS

TAGS: EFIN

SUBJECT: TAXATION TREATY

REF: A. STATE 231794; B. CAIRO 9568

1. ON OCTOBER 4 DCM WAS FINALLY ABLE TO REACH MINFINANCE ABU ISMAIL WHO HAD BEEN OUT OF TOWN. ABU ISMAIL WAS AGREEABLE TO HOLDING TAXATION TREATY CEREMONY DURING SADAT'S WASHINGTON VISIT. HE SAID HE WOULD REVIEW WITH HIS LEGAL ADVISERS QUESTION OF SIGNATURE OF ENGLISH TEXT ONLY AND INDICATED THAT, IF THIS WERE NOT APPROPRIATE, INITIALLING CEREMONY AT MINISTERIAL LEVEL COULD BE HELD INSTEAD.

2. AT FIRST ABU ISMAIL INDICATED THERE WOULD BE NO NEED TO SEND TECHNICAL DELEGATION AHEAD SINCE PRESENT DRAFT WAS ACCEPTABLE. HOWEVER, LATER, AFTER CONSULTING WITH HABIB AND OTHER ADVISERS, HE TELEPHONED DCM TO SAY THAT THERE WERE A FEW POINTS WHICH NEEDED CLARIFICATION OR REFINEMENT AND PERHAPS IT WOULD BE BETTER TO SEND SUCH A DELEGATION IN ADVANCE.

3. WHEN QUERIED AS TO NATURE OF "POINTS", ABU ISMAIL MENTIONED PROVISION RE 5 YEAR EXEMPTION OF AMERICAN INVESTORS FROM EGYPTIAN TAXATION AND GOE DESIRE TO INSURE THAT THEY WOULD TRULY BENEFIT FROM THIS TAX BREAK. DCM RECALLED THAT THIS HAD BEEN ONE OF MAIN ISSUES HOLDING UP AGREEMENT ON DRAFT TEXT AND THOUGHT THAT THIS COULD PRESENT PROBLEM. ABU ISMAIL
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PAGE 02 CAIRO 09971 041729Z

FELT THAT NEW FORMULATION IN MOST RECENT AMERICAN DRAFT

HAD NARROWED DIFFERENCE AND THAT SATISFACTORY LANGUAGE COULD BE WORKED OUT WITHOUT TOO MUCH TROUBLE. DCM ASKED THAT MORE SPECIFIC INDICATION OF THIS AND OTHER "POINTS" WHICH NEEDED REFINEMENT BE PROVIDED BEFOREHAND FOR TREASURY INFORMATION. ABU ISMAIL SAID HE WOULD HAVE HABIB FURNISH EMBASSY WITH MEMORANDUM IN MORE DETAIL IMMEDIATELY AFTER BAIRAM HOLIDAYS (WHICH CONTINUE FOR MOST OF NEXT WEEK).

4. EMBASSY HAD ANTICIPATED SOMETHING ALONG THESE LINES WHEN UNDERSEC HABIB HAD ASKED ECONCOUN OCT 2 FOR 5 ADDITIONAL COPIES OF 76 PAGE DRAFT TAX TREATY SO THAT "ALL NECESSARY PEOPLE" COULD REVIEW "MINOR QUESTIONS" STILL OUTSTANDING. HABIB ALSO EXPRESSED CONCERN ABOUT PRODUCING TRANSLATION OF TREATY BECAUSE HE FEARS NECESSARY COMPETENCE ON COMPLICATED TAX AND LEGAL MATTERS IN BOTH ENGLISH AND ARABIC WAS NOT AVAILABLE IN EGYPT. IN OFFER TO BE OF HELP, WE OFFERED TO QUERY DEPT RE EXISTENCE OF SIMILAR TREATY WITH OTHER ARABIC LANGUAGE COUNTRY. WHILE NOT IDENTICAL, EXISTENCE OF SIMILAR SECTIONS IN BOTH LANGUAGES COULD BE HELPFUL TO TRANSLATION TASK. PLEASE ADVISE.

5. COMMENT. IT IS STILL NOT CLEAR WHETHER GOE CONSIDERATION OF TAX TREATY DRAFT IS AT SUCH STAGE THAT SIGNING INITIALLING CEREMONY COULD TAKE PLACE DURING SADAT VISIT. HOWEVER, PRESSURE GENERATED BY IMPORTANCE OF SUCH SIGNATURE DURING VISIT AND SHORT DEADLINE MAY MOVE GOE TO MORE RAPID AGREEMENT ON "POINTS" IN QUESTION THAN WOULD BE CASE OTHERWISE. EMBASSY WILL TRANSMIT TO DEPT. AND TREASURY INFORMATION PROVIDED BY MINFINANCE MEMO WHEN-- AND IF--IT BECOMES AVAILABLE
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